C

Issue C: Have AT&T and the Bell Atlantic correctly allocated and separated amounts associated with implementation of SFAS-112 in accordance with the Commission's rules?

RESPONSE

Bell Atlantic properly allocated and separated amounts associated with SFAS 112 costs as demonstrated on Exhibit 20-1-A[9]. Workpaper 6-40-1 of Exhibit 20-1-A displays the total company transitional obligation costs for 1993.

Using the transitional obligation costs properly adjusted for annual Network Service allocation ratios, Bell Atlantic then calculated the "subject to separations (STS) expense amounts" and interstate expenses amounts. To determine the STS expense amounts, Bell Atlantic multiplied the total company expense amounts by the ratio of STS Corporate Operations expenses to Total Company Corporate Operations expenses. This relationship was based on Bell Atlantic's results, displayed in the 1993 Fourth Quarter ARMIS 43-01 Reports, filed March 31, 1994 (Exhibit 20-1-A, Workpaper 6-40-2).

Using the STS expense amounts, Bell Atlantic calculated the interstate expenses amounts. To determine the appropriate interstate SFAS 112 expense, Bell Atlantic multiplied the subject-to-separations expense amounts for SFAS 112 by the ratio of interstate Corporate Operations expense and STS Corporate Operations expense. This relationship was based on the 1993 ARMIS Fourth Quarter 43-01 Reports (Exhibit 20-1-A, Workpaper 6-40-2).

Next, Bell Atlantic computed the state deferred taxes and average deferred tax amounts. Bell Atlantic calculated the state deferred taxes by multiplying the applicable state tax rates by the total interstate expenses for SFAS 112 not recognized for tax purposes. These amounts were then divided by two to arrive at the average interstate state deferred tax amounts (Exhibit 20-1-A, Workpaper 6-40-3).

The next step was to calculate the average deferred amounts for federal income taxes (FIT). Bell Atlantic calculated the FIT deferred taxes by multiplying the applicable FIT rate by the total interstate SFAS 112 expenses and state taxes not recognized for tax purposes to determine the FIT deferred tax amounts. These amounts were divided by two to arrive at the average interstate FIT deferred tax amounts (Exhibit 20-1-A, Workpaper 6-40-4).

Bell Atlantic then computed the revenue requirements (Exhibit 20-1-A, Workpaper 6-40-5). The revenue requirements were then spread to the access categories based on total

[9] Exhibit 20-1-A consists of Workpapers 6-40 and 6-40-2 through 6-40-8, as excerpted from Bell Atlantic Transmittal No. 704, filed October 13, 1994 and Workpaper 6-40-1 (revised).

Corporate Operations expenses from the 1993 ARMIS Fourth Quarter 43-01 report (Exhibit 20-1-A, Workpaper 6-40-6).

To eliminate any potential of double counting in the GNP-PI (Exhibit 20-1-A, Workpaper 6-40-7) of the incremental SFAS-112 expenses, Bell Atlantic adjusted from its price cap revenue requirement an amount for the increase in GNP-PI caused by the adoption of SFAS 112 (Exhibit 20-1-A, Workpaper 6-40-8).

Exhibit 20-1-A, Workpaper 6-40 displays Bell Atlantic's SFAS 112 exogenous cost summary.

The above steps are set forth in Bell Atlantic's Transmittal No. 704, Section 4.

Paragraph 20-1

Provide the amount associated with implementation of SFAS-112 for the total company (including telephone operations and non-telephone operations).

RESPONSE

The total company incremental costs associated with SFAS 112 reflected in Bell Atlantic's books in 1993 amounted to $133.0M for the transitional obligation and accrual costs. Bell Atlantic's filing included only the incremental transition obligation costs of $130.8M (Exhibit 20-1-A, Workpaper 6-40-1).

Paragraph 20-2

An explanation of how the carrier arrived at the total company SFAS-112 amounts.

RESPONSE

Total Bell Atlantic SFAS 112 accrual amounts were developed by outside actuaries, Towers Perrin and Tillinghast, a Towers Perrin affiliate. In developing the SFAS 112 LTD costs, Towers Perrin used a SFAS 5 approach to determine the total benefit obligation for all employees who were receiving benefits under the LTD plan. Under the SFAS 5 methodology, a postemployment benefit obligation should be accrued if the following two conditions are met: (1) it is probable that a liability has been incurred and (2) the amount of the liability can be reasonably estimated. Listed below are the Company associate and management SFAS 112 LTD actuarial assumptions:

LTD Actuarial Assumptions	Associate	Management
Discount Rate:	7.75%	7.75%
Social Security: – Approval Rate – Salary Scale	 60.00% 5.25%	 70.00% 5.25%
Disability Incidence Rate:	52% of the 1987 Commissioner's Group Disability Table	52% of the 1987 Commissioner's Group Disability Table (reflects recent experience for the management group)
Disability Termination Rates:	1987 Commissioner's Group Disability Table adjusted for occupation and industry.	1987 Commissioner's Group Disability Table adjusted for occupation and industry.
Administration Expenses:	10% of benefit payments	10% of benefit payments

Towers Perrin developed a SFAS 5 disability pension benefit obligation for participants who had 15 years of service but were not eligible for a regular pension benefit. The management and associate disability pension obligation employs the following assumptions:

- 1.925% annual cost-of-living increases
- Pension Benefit Guarantee Corporation (PBGC) disabled life mortality (non-social security recipients)
- Discount rate of 7.75%
- Annual rates of increase in:
  - Salaries = 5.25%
  - Indexed limits on compensation and benefits = 3.5%

In determining Bell Atlantic's SFAS 112 cumulative effect workers compensation liability, most actuarial methodologies were deemed to be insufficient, due to the lack of Company historical workers compensation reserve information and payment data on a per case basis. As a result, a case by case review of all outstanding workers compensation claims was undertaken as of January 1, 1993 and June 30, 1993 by the Company to determine the associated benefit obligations that would be required to be recognized under SFAS 112. This information was supplied to Tillinghast for review and was utilized to project the cumulative effect benefit obligation for SFAS 112.

Utilizing this data, Tillinghast also calculated an estimated amount of the incurred but not reported (IBNR) liability by applying national insurance industry trends to the Company determined reserve information. The reported IBNR reserve is required to cover claims on cases which have not yet been reported and additional claims costs on existing cases resulting from problems that have not yet fully emerged.

Tillinghast then aggregated the estimated outstanding claims balance as of January 1, 1993 with the estimated IBNR reserve to arrive at the Company total workers compensation reserve at January 1, 1993. This methodology was reviewed with the Company's external auditors.

See Exhibit 20-2-A, specifically:

- Tillinghast Workers Compensation Report, Section V - *Assumptions*, dated October 1993;
- Summary Exhibits 1, 2 and 3 for total company estimated outstanding case reserves and estimated IBNR reserves;
- Separate OTC Company reserve computations (Exhibits 1, 2 and 3) for insurance industry benchmarking data and outstanding workers compensation case estimates.

Paragraph 20-3

Provide the amounts allocated to the telephone operating companies, the specific Part 32 Accounts to which they are assigned, and the amounts allocated to each of those accounts.

RESPONSE

Exhibit 20-1-A, Workpaper 6-40-1 displays total SFAS 112 costs allocated to the Bell Atlantic study areas. SFAS 112 expenses were booked to Account 6728, Other General and Administrative Expense under RAO Letter 22. Account 6728 is included in Corporate Operations Expense in Part 32.

Paragraph 20-4

The method (e.g., head counts, actuarial studies) of allocating amounts to the telephone operating companies.

RESPONSE

Associate and management LTD costs were allocated to the OTC based upon headcount. Associate disability pension costs were allocated to the OTCs based upon headcount which is the same methodology used to allocate annual pension cost. Management disability pension costs were allocated to the OTCs based upon gross pensionable wages/valuation earnings which is the same methodology used to allocate qualified pension cost. The workers compensation liability was allocated back to the OTCs based upon their separate company estimates of their June 30, 1993 claims reserve data.

Paragraph 20-5

Provide the amounts allocated between regulated and non-regulated activities of the telephone company pursuant to Part 64 of the Commission's rules, 47 C.F.R. 64.1 *et seq.*, together with a description and justification of the methodology for the allocations.

RESPONSE

Using the incremental expense amounts, Bell Atlantic calculated the STS amounts by multiplying the incremental total company amount by the ratio STS to total company. These ratios were developed based on ARMIS Fourth Quarter 43-01 reports (Exhibit 20-1-A, Workpaper 60-40-2).

The steps used to develop STS and non-regulated amounts are set forth in Bell Atlantic's Transmittal No. 704, Section 4.

Also, see Bell Atlantic's response to Issue C.

Paragraph 20-6

Provide the allocation of costs to price cap baskets, by year.

RESPONSE

SFAS 112 exogenous costs were included in Bell Atlantic's rates for the tariff period of July 1994 through June 1995.[10] The allocation of costs by basket were for one tariff year only. Bell Atlantic distributed the interstate revenue requirement for SFAS 112 based on the distribution of Corporate Operations expense from the 1993 Fourth Quarter ARMIS 43-01 Reports. Exhibit 20-1-A, WP 6-40-6 displays amounts by the following baskets:

Common Line = Common Line / Interstate
Traffic Sensitive = Traffic Sensitive / Interstate
Special Access = Special Access / Interstate
Interexchange = Interexchange / Interstate

The steps used to allocated costs to baskets are set forth in Bell Atlantic's Transmittal No. 704, Section 4.

Also, see Bell Atlantic's response to Issue C.

[10] Rates actually did not go into effect until March 1995 and were grossed up to recover the annual amount over a shortened period.

D

Issue D: **How should Voluntary Employee Benefit Association trusts or other mechanisms for funding expenses subject to SFAS 112 be treated:**

Item 1

If implemented before price caps;

RESPONSE:

As Bell Atlantic states in the response to paragraph 21-1, on January 1, 1991, Bell Atlantic had in effect a Voluntary Employee Benefit Association trust, Bell Atlantic BellFLEX Long Term Disability Plan Trust, providing for compensation of 40%, 50%, 60% or 70% of a participant's basic pay, depending upon their elected level of coverage.

Since this funded trust was in existence prior to the implementation of price caps[11], it is appropriate to remove this cost from the incremental calculation of SFAS 112 expenses.

In Transmittal Nos. 704 and 747 in which Bell Atlantic filed for exogenous treatment of its SFAS 112 expenses, Bell Atlantic removed all pay-as-you-go expenses, including VEBA funded trusts, from the incremental SFAS 112 costs, subject to exogenous treatment. This ratemaking treatment was necessary to properly capture the incremental cost increase associated with the change from pay-as-you-go accounting to accrual accounting as specified under SFAS 112.

Item 2

If implemented after price caps, but before the change required by SFAS-112;

RESPONSE:

This scenario is not applicable to Bell Atlantic.

Item 3

If implemented after the change in accounting required by SFAS-112?

RESPONSE:

This scenario is not applicable to Bell Atlantic.

[11] The Bell Atlantic BellFLEX Long Term Disability Plan Trust was established on behalf of management employees on July 1, 1985.

E

Issue E: Should exogenous treatment for SFAS-112 amounts be limited to costs that are funded?

RESPONSE

The Commission should make no attempt to limit exogenous treatment of Postemployment Benefit costs to amounts that are funded. The entire purpose of SFAS 112 was to move toward accrual recognition of these costs. To authorize the legitimate recognition of SFAS 112 expenses for calculation of net income, but prohibit recovery of these expenses, or otherwise limit recovery of these expenses to funded amounts, would be inconsistent with the accounting treatment accorded by the Commission in its June 17, 1993 RAO Letter 22 authorizing the accounting change. Moreover, such an attempt would conflict with the ruling of the U.S. Court of Appeals for the D.C. Circuit in July 1994, affirming that GAAP changes, once mandated by the Commission, met the definition of an exogenous cost as of the time the SFAS 112 tariff change was filed.

Should the Commission continue to pursue this issue, the Commission must realize that a funding requirement would have one of two consequences, neither of which is reasonable.

1) If the Commission were to require companies to fund all postemployment benefit accruals, it would put the Commission in the position of requiring management to make imprudent or uneconomic financial decisions. Fully funding these accruals would limit the company's ability to take advantage of other economically superior investment opportunities. Neither ratepayers nor shareholders will benefit if Bell Atlantic is required to manage its funds in ways that are not economical.

2) On the other hand, if the Commission were to limit the amount of Postemployment Benefit costs that could be recovered through exogenous treatment to levels that were actually funded, it would, in effect, be requiring cash accounting for Postemployment Benefit costs, and rejecting SFAS 112 altogether. Such a result is contrary to the Commission's own Part 32 Uniform System of Accounts' acceptance of Generally Accepted Accounting Principles (GAAP), which was adopted by the Commission in its GAAP Order dated October 31, 1985.[12]

By limiting exogenous treatment to amounts that are funded, the Commission would, in effect, be limiting traditional management functions of balancing the interests of ratepayers, employees and shareholders and carefully managing the Company's funds and assets. Under SFAS 112, Bell Atlantic's financial statements reflect the Company's

[12] CC Docket 84-469, In the Matter of Revision of the Uniform System of Accounts for Telephone Companies to Accommodate Generally Accepted Accounting Principles, **Report and Order**, October 31, 1985.

liabilities, including Postemployment Benefits[13], as well as the Company's ability to meet those liabilities. The Company should retain the ability to manage its funds in a financially sound manner, rather than being required to lock funds into investments that are economically disadvantaged.

[13] See disclosures in enclosed 1993 Annual Report, ¶18-5.

Paragraph 21-1

Describe any VEBA trust or other funding mechanisms for postemployment benefits established prior to or after the adoption of SFAS-112.

RESPONSE

The Company formed the Bell Atlantic BELL-FLEX Long-Term Disability Plan Trust to provide LTD benefits to management employee plan participants and their beneficiaries. The Trust is intended to qualify as a Voluntary Employees' Benefit Association (VEBA) as defined in the Internal Revenue Code section 501(c)(9).

Paragraph 21-2

A statement of the purpose of the VEBA funds and a description of SFAS 112 postemployment benefits covered by each VEBA fund, trust, or other mechanism.

RESPONSE

See Company's response to paragraph 21-1.

Paragraph 21-3

Provide the amounts placed in these funds for each year since they were implemented.

RESPONSE

See exhibit 21-3-A.

Paragraph 21-4

Describe the amounts placed in the trust for ongoing postemployment benefits and for the transition amount.

RESPONSE

Amounts contributed to the Long Term Disability Trust are used to fund ongoing management participant long term disability benefits. The Trust receives a sufficient level of contributions each year to pay current year LTD claims only. The Company did not fund the SFAS 112 transition obligation.

Paragraph 21-5

A description of the assumptions made when the funds were set up, including, but not limited to, the time value of money, expected long-term rate of return on plan assets, projected downsizing and layoffs, compensation levels for supplemental unemployment benefits and salary continuation, and age, health, and workplace safety factors affecting the amount and timing of disability-related benefits, and continuation of health care and life insurance benefits.

RESPONSE

The Bell Atlantic LTD Trust was formed to receive a sufficient level of contributions each year to pay current year LTD claims only. The Trust continues to operate as a "flow through" entity, receiving monthly company and employee contributions and paying those funds to plan participants. Historically, the Trust has maintained a minimal balance. Thus, there are no significant economic or demographic actuarial assumptions. However, Bell Atlantic does rely upon an independent actuarial firm (Towers Perrin in 1993) to review the funded status of the plan, and to determine maximum deductible contribution amounts each year. See Exhibit 26-C for a description of assumptions made in valuating LTD benefits for Bell Atlantic management employees.

Paragraph 21-6

Describe the restrictions, if any, that prevent these VEBA funds from being used to fund benefits other than SFAS-112 postemployment benefits.

RESPONSE

Mellon Bank, N.A. (independent Trustee) oversees the distribution of funds for LTD claims. The Bank enforces the Trust Document which states that the assets shall not be diverted to or used for purposes other than the exclusive purpose of providing benefits to management LTD plan participants and their beneficiaries and defraying reasonable expenses of administrating the Plan and the Trust. In the event that a contribution is made to the trust by mistake of fact, the contribution, decreased for any attributable losses, may be returned to the company within one year after the contribution is made to the trust.

F

Issue F: Should exogenous treatment be given only for amounts associated with employee interests that have vested?

RESPONSE

Exogenous recovery of Postemployment benefit expenses should not be limited to amounts associated with employee interests that have vested. There is no requirement, either statutory, or as imposed by the Financial Accounting Standards Board (FASB), that these benefits be vested (see response to Issue E). In addition, vesting of benefits is not a determining factor in whether a liability exists. Per the FASB's determination, "the event that creates a liability and affects the amount of benefits is the rendering of service by the employee,"[14] or such time when the "liability has been incurred, and the amount of the loss can be reasonably estimated".[15]

Moreover, the Company has maintained Postemployment benefits plans and paid benefits in accordance with such plans since the Company's inception in 1984, and earlier when it was still incorporated under AT&T.[16] In addition, these plans, including eligibility requirements, changes and amendments, have been clearly communicated, in writing, to all employee participants.

---

[14] *SFAS 112, Employers' Accounting for Postemployment Benefits*, FASB, November 1992, par. 18.

[15] *SFAS 5, Accounting for Contingencies*, FASB, March 1975, par. 8.

[16] The Bell Atlantic Telephone Operating Companies, formerly C&P Telephone, New Jersey Bell and Bell of Pennsylvania/Diamond State Telephone, have been providing Postemployment benefits since the 1970's.

Paragraph 22

We direct AT&T and Bell Atlantic to provide documentation showing when the employees interests vest in each type of Postemployment benefit offered by the Company.

Also, such companies must explain how they determine when an employee's interest vests in the Postemployment benefits.

RESPONSE

Unlike pension benefits, there is no federal statutory requirement that Postemployment benefits vest for active employees. Therefore, as a general matter, Bell Atlantic reserves the right to modify or terminate the management long term disability and workers compensation plans at any time for active working employees. For management active employees, there are no vesting provisions. Although there are also no stated vesting provisions applicable to associates, there are special rules under which Bell Atlantic's ability to modify or terminate the associate long term disability and workers compensation plan may be restricted or even denied under applicable labor laws. Of course, workers compensation benefits provided for under state law may not be modified or terminated by the company. Disability pension benefits vest in accordance with the federal pension vesting statutes.

The workers compensation benefits provided by the Company in excess of state government minimum levels do not vest for active employees. Disability pension benefits vest in accordance with the federal pension vesting statutes.

G

Issue G: How should deferred tax benefits applicable to SFAS 112 postemployment benefits be treated for purposes of exogenous adjustments?

RESPONSE

There is no deferred tax benefit to Bell Atlantic as a result of SFAS 112 implementation. For taxable income purposes, IRS regulations essentially allow for the recognition of only the cash portion of postemployment benefit expenses. Bell Atlantic cannot reduce its taxable income by the SFAS 112 liability amount. The actual cash benefit of reduced taxes will be realized in future years, when the SFAS 112 liability is paid or funded and expensed.

Paragraph 23

AT&T and Bell Atlantic are directed to describe on a year-by-year basis any exogenous adjustments made to reflect any deferred tax benefit associated with their postemployment benefit accrual amounts.

Companies are also directed to provide an explanation if there are no such adjustments.

RESPONSE

As stated in the company's response to Issue G, there is no deferred tax benefit to Bell Atlantic as a result of SFAS 112 implementation. However, there is an FCC tax effect. In accordance with Parts 65.450(a) and 65.830(a) of the FCC's interstate rate of return procedures, Bell Atlantic reflected incremental SFAS 112 expenses and associated average net investment (i.e., average deferred tax) impacts in its exogenous cost filing. Bell Atlantic's adoption of SFAS 112 acted to decrease the Company's deferred taxes, which resulted in an increase in average net investment for Part 65 purposes.

The method used by Bell Atlantic to calculate deferred taxes for SFAS 112 is the same method used for all exogenous changes that impact taxes in a similar manner. See Exhibit 20-1-A, Workpapers 6-40-3 and 6-40-4 for Bell Atlantic's treatment of Deferred Taxes - State and Federal.

H

Supporting Studies and Models

Paragraph 24

We require each company to include in its direct case all studies upon which the company seeks to rely in its demonstration that these accounting changes should receive an exogenous cost adjustment.

This includes studies demonstrating any correlation, or lack thereof, between the accounting changes and the following: the current price cap formulas; inflation adjustments to price cap formulas; the carrier's productivity; previously allowed exogenous changes, such as changes in state tax rates.

Further, because the price indices used to measure inflation in the price cap formula presumably already reflect the cost of postemployment benefits, the companies should include information on what adjustments, if any, should be made in the exogenous adjustments to avoid double counting. If an adjustment has been made, parties and commenters shall document how the adjustment was computed.

Finally, each company shall include in its direct case all studies upon which the company seeks to rely to demonstrate that the costs associated with implementation of SFAS 112 are not already reflected in the rates in effect on the initial date that the carrier became subject to price cap regulation.

Paragraph 25

Parties and commenters relying on a macroeconomic model shall fully describe and document the model, including the method of estimation, parameter estimates, and summary statistics.

These same data should be submitted for any alternate functional forms that were modeled, including the data used to estimate the model, the data used in making forecasts from the model, and the results of any sensitivity analyses performed to determine the effect of using different assumptions.

Parties and their commenters that rely on macroeconomic models must submit sufficient information, either with their direct cases or comments, to enable others to replicate the results.

RESPONSE

As shown in response to paragraph 18, SFAS 112 costs were not contemplated or included in the costs used to establish baseline rates going into price caps. According to the Commission's own rules at the time, these costs are, by definition, exogenous to the price cap formula. (See ***Southwestern Bell Tel. Co. v. FCC***, 28 F.3d at 169-70.)

With respect to adjustments to avoid double counting, Bell Atlantic relies on an analysis prepared in October 1994 by the authors of the original Godwins' Study, Peter Neuwirth and Andrew Abel, now of Towers Perrin. Mr. Neuwirth and Professor Abel's SFAS 112 analysis, which was originally filed in Transmittal No. 704, addresses the double count issue of SFAS 112 on GNP-PI. This analysis asserts that the double count for the catch-up of Bell Atlantic's exogenous cost is zero. For the remaining amounts, which were not included in Bell Atlantic's filing, the impact, if more than zero, is quite small. Certainly it is less than the .0124% calculation determined by Godwins' as the amount of the double count in GNP-PI of SFAS 106 (see Direct Case CC Docket No. 94-157). The company also provides an updated analysis by Mr. Neuwirth and Professor Abel reasserting the conclusions reached in this October 1994 SFAS 112 paper.

In addition, Bell Atlantic relies on several studies that were filed by USTA in the SFAS 106 Investigation, CC Docket No. 94-157. Specifically, we include a copy of the original Godwins' study, which analyzed the potential double count impact on the GNP-PI of SFAS 106 expenses, and all follow-up and supplemental studies/analyses on SFAS 106, as prepared by Godwins, and subsequently Mr. Neuwirth and Professor Abel.

According to the conclusions reached by Mr. Neuwirth and Professor Abel in their October 12, 1994 analysis, filed in Trans. No. 704, Bell Atlantic should not have to make any adjustment for its SFAS 112 exogenous cost calculation to reflect double counting in the GNP-PI. Mr. Neuwirth and Professor Abel assert in this paper, and reaffirm in their December 29, 1995 analysis, that because the bulk of SFAS 112 is the transition obligation, the majority of the expense is a *past* production cost, or a sunk cost to the business and has no impact on the marginal cost of production, and would not be reflected in the national price level. The on-going expenses are much smaller, and far less prevalent than SFAS 106 on-going costs. Despite these assertions, Bell Atlantic conservatively reduced its exogenous cost recovery amount for SFAS 112 by .0124%, the same percentage as it reduced its SFAS 106 exogenous cost amount (see Exhibit 20-1-A, Workpapers 6-40-7 and 6-40-8)[17].

Specifically, Bell Atlantic includes in this filing the following studies and analyses:

Exhibit 24-a: Analysis of Impact of SFAS 112 on the GNP-PI, October 12, 1994, prepared by Professor Andrew Abel and Mr. Peter Neuwirth, assessing the Impact of SFAS 112 on the GNP-PI, originally filed with Bell Atlantic Transmittal No. 704.

[17] Additionally, as shown in Exhibit 20-1-A, Workpaper 6-40-1, Bell Atlantic has not sought exogenous recovery for the on-going SFAS 112 accrual amount, which makes the SFAS 112 exogenous amount even more conservative.

Exhibit 24-b: Update of Analysis of Impact of SFAS 112 on the GNP-PI, December 29, 1995, prepared by Professor Abel and Mr. Neuwirth, reasserting the conclusions in their original SFAS 112 analysis.

Exhibit 24-c: Perspectives on Analysis of Impact of SFAS 106 on GNP-PI, August 14, 1995. Affidavit by Professor Abel and Mr. Neuwirth, summarizing the available evidence, and illustrating that the original Godwins''s study is still valid for demonstrating the relationship of the impact of SFAS-106 to GNP-PI, and the extent to which the cost increases engendered by SFAS-106 will be recovered through the price cap plan.

Exhibit 24-d: Original Godwins' study, Analysis of Impact of SFAS 106 Costs on GNP-PI, February 1992, was commissioned by USTA, and was submitted by Bell Atlantic as well as several other LEC's in support of our SFAS 106 exogenous calculations.

Exhibit 24-e: Godwins''s Response, Response to Paragraph 16, of FCC Order of Investigation and Suspension CC Docket No. 92-101, May 26, 1992, which is an explanation of the macroeconomic model, to Paragraph 16 of the Order Designating Issues for Investigation in CC Docket 92-101.

Exhibit 24-f: The Rebuttal Analysis to accompany the 1992 Godwins's study, including the Supplemental Report: Responses to Objections Raised Regarding Original Study, Godwins', July, 1992.

Exhibit 24-g: Godwins' Supplemental Report: Additional Sensitivity Analysis, March 1993, was provided to explain the conservative nature of the Godwins''s study as well as to show the results of additional sensitivity analysis. (1992).

Exhibit 24- h: Additional Exposition of the Macroeconomic Model, Andrew B. Abel used in the Godwins' Report.

Paragraph 26

AT&T and Bell Atlantic shall provide a complete copy of all actuarial reports and studies used to determine SFAS-112 amounts for each type of postemployment benefit provided by the Company. Companies are also directed to provide descriptions and justifications of the actuarial assumptions, and the assumptions unique to postemployment benefits, made in computing the SFAS-112 expenses.

These assumptions should include, but are not limited to, the time value of money, expected rate of return on plan assets, participation rates, per capita claims cost by age, salary progression (for salary continuation and other severance benefits), probability of payment of each type of postemployment benefit (i.e. involuntary separations); downsizing affected through early retirement and reduced hiring; retirement; disability; and death.

Parties and commenters should also discuss what assumptions, if any, were made about other future events such as capping or elimination of benefits, or the possible advent of national health insurance.

RESPONSE

Attachments 26-B through 26-E display 1993 valuation amounts (and assumptions) for Worker's Compensation, Management Long Term Disability, Associate Long Term Disability, and Disability Pension, respectively. These valuation amounts (summarized in Attachment 26-A) were provided by Towers Perrin, an independent actuarial firm. Also, see the company's response to Paragraph 20-2 for information on the assumptions.

The United States Court of Appeals for the District of Columbia Circuit has directed the Commission to grant exogenous treatment for GAAP changes, once mandated by the Commission. The company's exogenous cost filing for SFAS-112 expenses was based on certain company postemployment benefit expenses as existed in 1993, when the company adopted SFAS-112. The exogenous event **was** the adoption of SFAS-112 effective January 1, 1993. The exogenous event is **not** determined by the amount of on-going postemployment benefit expenses. The exogenous amount of SFAS-112 expenses equals the difference between the total postemployment benefit costs at the time the Company adopted SFAS-112 and the related pay-as-you-go amounts at that time. Changes in SFAS 112 expenses that occur in years subsequent to adoption are endogenous to the company's operations, and are not eligible for exogenous treatment, regardless of whether the post-1993 SFAS 112 expenses increase or decrease. Therefore, the probability of speculative and uncertain future events, such as elimination of benefits or the advent of national health insurance, are not quantified and are not reflected in the valuations provided in Exhibits 26-B through 26-E.

Paragraph 27

We also direct AT&T and Bell Atlantic to submit all options provided by actuaries from which information was selected to derive SFAS-112 amounts including, but not limited to: the ranges of data on the age and size of the work force; the ages at which employees separate; and length of separation prior to finding new employment.

The Companies should explain and provide documentation of the extent they accounted for the possibility of future downsizing or layoffs in the workplace. They should provide information on what adjustments they have made to their SFAS 112 amounts for any layoffs or downsizing that have occurred since the adoption of SFAS 112. They should give full details of these adjustments.

RESPONSE

Bell Atlantic provides one set of plan participant census and claims data to the actuarial firm performing the studies each year for computation of SFAS-112 costs. Therefore, the actuaries have not provided Bell Atlantic with any options to derive the annual SFAS-112 amounts.

The Company's SFAS 112 benefit obligation was recorded under a SFAS 5 aproach such that the transition obligation represents workers compensation, LTD and disability pension claims that were probable and estimable at Jaunuary 1, 1993. At that time, the Company had not developed nor implemented any significant downsizing or layoff plans. Thus, the SFAS 112 liability was not adjusted for any future force reductions. Furthermore, beginning in 1993, and each year thereafter, the employee census data used by the actuaries to calculate the annual SFAS-112 expense amounts is revised to reflect employees who were separated from the company during the preceding year. As such, each annual actuarial report and/or valuation takes into account employees that were separated during previous years. Since adjustments to annual SFAS-112 amounts are automatically incorporated into each new actuarial valuation based on actual work force changes from the preceding year, the company cannot segregate the impact of these changes from other changes in actuarial assumptions. In addition, as previously noted, calculation of the company's post-1993 SFAS-112 expenses is irrelevant to the commission's determination of the specific amount of SFAS 112 costs that are eligible for exogenous treatment. Only the company's 1993 SFAS-112 expenses are relevant because the exogenous event occurred in 1993 (i.e., the year the company adopted SFAS-112).